

Engagement Policy

LAZARD
FRÈRES GESTION

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Engagement Policy



Objectives

Lazard Frères Gestion believes that companies' consideration of long-term factors is essential to the durability of their economic performance. Among these factors, environmental, social and governance (ESG) criteria receive particular attention from us, as do the long-term issues that concern and affect all of these companies' "stakeholders" (shareholders, employees, suppliers and consumers).

It is therefore important for Lazard Frères Gestion to encourage companies to integrate ESG issues into their development model. The way to achieve this objective is to exercise our voting rights in accordance with our clients' interests and to engage with the companies in which we invest.

Approach

As an asset manager belonging to a firm established for more than 170 years, Lazard Frères Gestion bases its investment strategies on the fundamental analysis of the economic cycle. All portfolio managers incorporate short-, medium- and long-term factors into their models in order to value companies as accurately as possible.

Engagement with issuers allows us today to ensure that the companies in which we invest share this long-term vision, particularly with regard to ESG criteria.

We do not set out to condemn a company for its practices: excluding securities from our funds remains the exception, insofar as it is often an ill-suited response and less effective at changing companies' practices.

By remaining investors, we retain influence over the responses companies provide and over their adherence to the transition.

Our engagement policy is intended as support for companies, whatever their sector of activity, through a transition that has become essential. We seek to promote, as a priority, direct dialogue with our analyst-portfolio managers, who are closest to the companies, often with the support of the ESG team.

This process forms part of the broader integration of ESG criteria into Lazard Frères Gestion's investment management, since it also allows us to refine our analysis and to increase the consideration given to the risks and opportunities that companies may present.

For more information on our ESG integration and the resources dedicated to engagement, please consult our Article 29 Report.

Individual Engagement

As responsible investors, we are convinced that we can have a positive impact through direct engagement and sustained dialogue with the companies in which we invest or are considering investing.

The aim of our engagement approach is above all to encourage companies to improve constructively across all of their ESG practices and thereby protect the value of investments by making them sustainable. Our engagement actions are carried out by the analyst-portfolio managers and ESG specialists after identifying the relevant issues for each company.

It is based in particular on our proprietary materiality matrix. Other tools are used to carry out an in-depth analysis of companies that may give rise to engagement.

Among them:

- **Information platforms**, including Bloomberg and FactSet, which provide information on company news or controversies;
- **Sell-side research** (broker notes, ESG newsletters);
- **Specific conferences and events**;
- **Reports from proxy advisory firms**, including Glass Lewis;
- **Specific data from research agencies**, including ISS ESG, MSCI, Ethifinance and SFJ Technologies.

Dialogue with data providers

To feed our analyses, we use a range of data providers. In the interest of vigilance, the offerings of our data providers are reviewed regularly in order to be certain that we benefit from the services best suited to our investment management.

We are in constant dialogue with providers whenever we identify an irregularity in the data.

As part of a continuous improvement approach, we carry out ongoing monitoring of the offerings of providers of non-financial data analysis.

I. Types of engagement

During their meetings with management, analyst-portfolio managers carry out ESG engagement actions, sometimes supported by ESG specialists. The latter also meet companies at market events dedicated to ESG or in meetings specifically dedicated to ESG. Site visits relating to the company's CSR policy are also possible.

We distinguish two types of engagement with companies:

- **Dialogue** takes the form of an exchange with the company on its ESG practices and policies. It allows us to demonstrate our interest and sensitivity to ESG themes and to ensure that changes in companies' non-financial performance are monitored over time.
- **In-depth engagement** can either take the form of concrete requests made to companies, or represent a more advanced dialogue with the company in which ESG is a significant element.

In this case, the objective is to make the company aware of one or more areas for improvement and of the consideration given to its ESG rating in the investment decision. These areas are formulated by the analyst-portfolio managers in collaboration with the ESG specialists and are assessed over time in order to improve or downgrade the company's internal rating.

Escalation process for internal ESG ratings

Our escalation process on internal ESG ratings is structured in the following two steps:

1 Triggering the process

If, when an internal ESG grid is created or updated, the company is assessed with a score of ≤ 1 on any one of the three pillars or ≤ 2 on its overall ESG rating, the company is placed on the watch list or on the exclusion list, depending on the Committee's opinion.

- Placement on the watch list systematically leads to one (or more) of the following three actions:
  - The initiation of an in-depth engagement so that the analyst obtains more information;
  - A vote against at the company's general meeting in order to express our disagreement with the current strategy;
  - A justifying comment from the analyst detailing the reasons for keeping the security in the portfolio in the interest of the fund's unitholders.
- Placement on the exclusion list entails the divestment of the security if it is held in a portfolio.

2 Quarterly committee

Securities on the watch list are subject to specific analysis before the "Engagement" committee. This committee meets quarterly and brings together representatives of the different investment teams (Equities, Fixed Income and GP), sales staff, and ESG. It is co-chaired by the Head of Institutional Management and the Head of ESG.

At the end of the discussion, a security on the watch list may be subject to:

- Removal from the watch list due to a satisfactory development;
- Retention on the watch list pending new information or in the interest of unitholders;
- Removal from the watch list in order to be placed on the exclusion list.

Likewise, a security on the exclusion list may be subject to:

- Retention on the exclusion list;
- Removal from the exclusion list in order to be placed on the watch list, owing to new developments concerning the security.



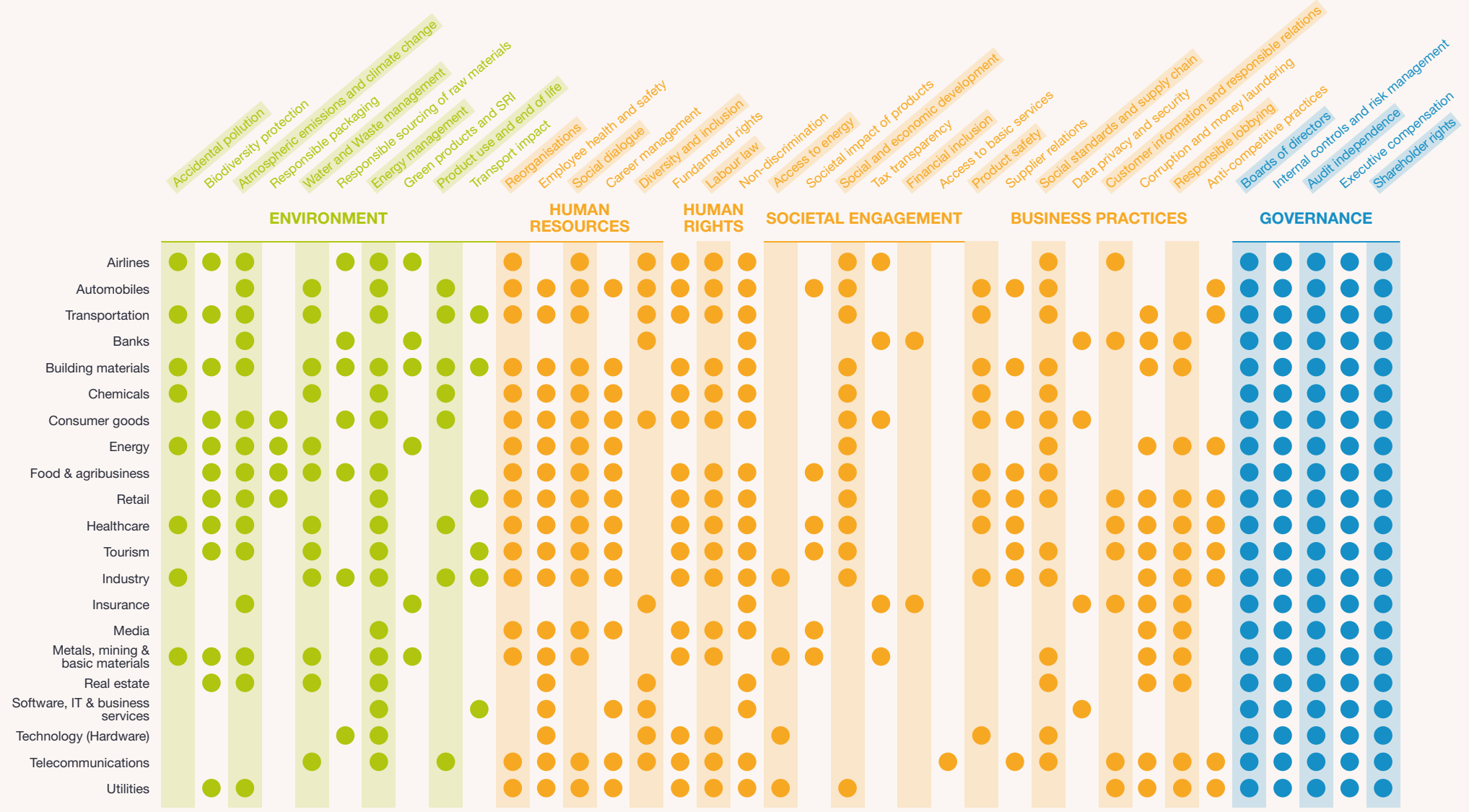
II. Engagement areas

For all of our funds, engagement areas are defined both at the level of the management company and by taking into account the specific characteristics of each company.

As a precondition to any action, a significant effort towards transparency on the part of all companies is now expected. It is indeed essential to encourage companies to communicate more on their non-financial performance so that we can know, assess and, where appropriate, influence their environmental, social, societal and governance practices.

In addition, the definition of sustainable investments under the SFDR regulation requires assessing companies' performance on 14 indicators, the Principal Adverse Impacts (PAI). The lack of data on these indicators makes it difficult to classify listed companies as sustainable investments.

At sector level, the proprietary materiality matrix allows us to identify the most important issues for a given set of activities. On each of these issues, companies are assessed relative to the performance of their peers. This matrix thus allows us to encourage the companies targeted by our engagement actions to adopt best practices relative to these dimensions.





As part of our **Paris Agreement alignment strategy**, we have set ourselves several short-, medium- and long-term objectives. In particular, our objective by 2030 is for the temperature of all of Lazard Frères Gestion's investments to be 2.5°C, an objective that will be reviewed and adjusted every five years in order to reach 2°C in 2050. To this end, we have set the following objectives:

Objective 1 · Reduce our carbon footprint

- Reduce the carbon footprint (scopes 1 and 2) by 55% in 2030 compared with 2019, across the management company's total assets under management
- We commit to integrating scope 3 data as soon as a sufficient level of reliability is reached
- This objective may be reviewed in the event of significant market movements

Objective 2 · Have a temperature aligned with the Paris Agreement

- Have a temperature across all of Lazard Frères Gestion's investments of 2.5°C by 2030, an objective that will be reviewed and adjusted every five years in order to reach 2°C or less in 2050
- Maximise the number of open-ended funds with an ITR (Implied Temperature Rise) lower than or equal to 2°C (+/-10%)
- For non-aligned funds, we commit to having more than 90% of the portfolio covered by carbon reduction initiatives and to engaging with issuers to have their targets validated by SBTi or equivalent

Objective 3 · Promote science-based climate targets

- Reach as quickly as possible 50% of issuers with an approved SBTi target, at the level of the management company

As part of its Biodiversity strategy, Lazard Frères Gestion has set itself a series of short- and medium-term objectives to integrate the protection of ecosystems into its investment activities and to support investee companies in the fight against biodiversity loss. In particular, the following voting and engagement objectives have been set:

Short-term objectives

- Join the FAIRR initiative to strengthen our collaborative engagement actions on the risks linked to animal proteins and intensive agriculture
- Strengthen transparency on biodiversity-related engagements and votes, by publishing the associated engagement actions and voting positions
- Encourage companies to respond to the CDP questionnaire (climate, water, forests) in order to improve transparency on their impacts
- Continue to contribute to international initiatives and coalitions for the consideration of biodiversity issues (TNFD)

Medium-term objectives

- Participate in SBTN consultations and support companies towards an alignment trajectory
- Participate in market initiatives on biodiversity data and develop tools to quantify and measure biodiversity risks and impacts
- Reduce, through engagement, the share of companies without biodiversity-related objectives

For more information on our Paris Agreement alignment strategies and our Biodiversity strategy, please consult our Article 29 Report.

III. Application at Lazard Frères Gestion

SRI funds

We pay particular attention to the companies held in our SRI-labelled funds.

We engage companies on improving their ESG rating, on the credibility and granularity of their climate transition plan, and on the way they manage their most significant controversies. We also monitor companies' social engagements, such as the consideration given to a just transition or respect for human rights, as well as good governance topics.

High-impact sectors are also subject to enhanced vigilance. In accordance with version 3 of the SRI label, we ensure that at least 15% of the companies concerned have a credible climate transition plan with respect to the climate objectives set by the Paris Agreement.

Beyond the stated objectives, we assess the credibility of the concrete means implemented by the company to achieve them, in particular its action plan, the financial resources allocated and its engagement strategy, as well as their relevance with regard to the targeted trajectory. This assessment directly feeds our monitoring and guides, where applicable, our escalation process.

If a company does not honour its engagements, our escalation process systematically provides for an in-depth engagement with the company in order to understand the causes of the shortcomings identified and to encourage the implementation of corrective measures. This approach may lead, in accordance with version 3 of the SRI label, to decisive investment decisions: a security may be sold if the engagement remains without result or if the identified risks persist. Conversely, a fruitful engagement may lead to an improvement in the internal rating, allowing an issuer to be removed from the exclusion list, a position to be initiated or an existing position to be increased.



SFDR Article 9 funds

For Article 9 funds, a non-financial objective is established beforehand. Engagement actions are carried out on this theme systematically with all companies in the portfolio, at least once a year. The questions are recorded and are the subject of statistics at year-end.

Lazard Human Capital

The **Lazard Human Capital** fund aims to invest in companies that provide solutions to sustainable development challenges and stand out for the quality of their Human Capital management, that is, the process implemented by companies to train, pass on knowledge, motivate, retain and recruit their employees according to their needs within the framework of their development strategies. The achievement of the sustainable investment objective is measured by sustainability indicators which, as a priority, are the subject of discussions with the portfolio companies:

- The number of training hours per employee per year;
- The percentage of women in senior management;
- The annual staff turnover rate;
- The involvement of management in training employees on diversity-related topics;
- The extent to which employee benefits are granted.

Customised objectives are developed for all companies in the portfolio in order to encourage them to improve their practices and to align with market best practice.

Companies that are not held in the portfolio may also be the subject of an engagement approach. Indeed, we may be interested in a company for financial reasons while its non-financial profile does not allow it to enter the universe. In this case, after identifying the blocking points (Human Capital criteria, or a company that is non-sustainable because of a poor result on the PAIs, etc.), Lazard Frères Gestion contacts the company to issue targeted recommendations.

If we do not observe positive progress for securities in the portfolio, an escalation procedure is triggered. It begins with an increase in the frequency of contacts with the company, followed by concrete requests regarding the achievement of objectives, which may go as far as a “sanction” vote against certain resolutions at general meetings. If the results observed are not judged satisfactory after one year, the position will be sold.



Lazard Green Capital

The **Lazard Green Capital** fund aims to select companies offering solutions with a favourable impact on the Environment, with strong alignment with the European Taxonomy. The achievement of the sustainable investment objective is measured by sustainability indicators which, as a priority, are the subject of discussions with the portfolio companies:

- Revenue aligned with the European Taxonomy;
- Climate risk management and adaptation to climate change;
- Sustainable resource management (water, waste, energy, pollution);
- Publication of ESG data;
- Controversy management.

Customised objectives are developed for all companies in the portfolio in order to encourage them to improve their practices and to align with market best practice.

Specifically, we engage portfolio companies to improve their alignment with the European Taxonomy and to increase the proportion of their aligned activities, through discussions on climate, the energy transition and the management of environmental issues within their value chain. This approach also aims to assess their ability to produce the necessary evidence of impact.

If we do not observe positive progress for securities in the portfolio, an escalation procedure is triggered. It begins with an increase in the frequency of contacts with the company, followed by concrete requests regarding the achievement of objectives, which may go as far as a “sanction” vote against certain resolutions at general meetings. If the results observed are not judged satisfactory after one year, the position will be sold.



Lazard Global Green Bond Opportunities

The **Lazard Global Green Bond Opportunities** fund invests in sustainable bonds, with a minimum of 90% in green bonds that are intended to finance the ecological and energy transition. It may be diversified up to 10% into bonds issued by issuers whose economic activity is deemed sustainable within the meaning of the SFDR Regulation, into Social Bonds whose objective is to finance socially sustainable projects aiming to deliver significant social benefits, and/or into Sustainability Bonds whose proceeds are used exclusively for projects that are both environmental and social.

Green Bonds, Social Bonds and Sustainability Bonds are assessed using an internal analysis grid (see Our Responsible Approach) and must comply with the principles and guidelines defined by the International Capital Market Association (ICMA).

An in-depth engagement procedure with issuers of green bonds (Green Bonds), social bonds (Social Bonds) or sustainability bonds (Sustainability Bonds) that we hold in the portfolio may be conducted in certain cases, in particular those listed below:

ISSUER PRACTICE IMPROVEMENT

Thematic engagement to encourage issuers to adopt best practices.

USE OF PROCEEDS

The financed projects do not meet the eligibility criteria set out in the issuance framework document.

ALLOCATION AND IMPACT REPORTS

- The issuer has not published the impact and/or allocation report on time;
- The report is not externally audited although this verification was initially planned;
- The information disclosed in the allocation and impact report does not demonstrate transparency, accuracy and integrity.

CONTROVERSIES

- The projects financed by the green bond are the subject of a controversy;
- A recent controversy of high or critical severity relating to the issuer, with a direct link to the green issuance and an impact on the financed projects. If the issuer fails to correct or justify its situation, the management team may consider divesting its position.



Collaborative Engagement

We detail all of the collaborative engagements undertaken by Lazard Frères Gestion in our engagement report.

I. Market engagements, surveys and working groups

Lazard Frères Gestion engages on an ad hoc basis in dialogue with various organisations such as, for example, the AFG. This dialogue may take the form of participation in working groups or the provision of data on socially responsible investment or ESG issues.

II. PRI signatory

Lazard Frères Gestion decided in 2015 to sign the United Nations Principles for Responsible Investment (PRI).

The PRI initiative, which aims to better integrate environmental, social and governance (ESG) factors into investment decisions, brings together 1,800 asset manager signatories representing USD 70 trillion of assets in more than 50 countries.

III. CDP membership

Lazard Frères Gestion decided in early 2020 to become a CDP signatory. The CDP, formerly known as the "Carbon Disclosure Project", encourages companies, investors and cities to develop a culture of transparency in order to build a more sustainable economy by measuring their impact on the climate, on the use of water resources and on forests.

This non-profit international organisation holds the world's largest database on the environmental performance of companies and local authorities, and its questionnaire serves as a reference for carbon reporting.

IV. TCFD support

Since 2020, Lazard Frères Gestion has been among the "TCFD Supporters". The TCFD (Task Force on Climate-related Financial Disclosures) is a working group set up at the end of 2015 by the G20's Financial Stability Board (FSB).

The purpose of this body is to identify the information useful to investors for assessing the risks and opportunities related to climate change. Chaired by Michael Bloomberg, it is made up of asset managers, pension funds, large companies, accounting and consulting firms and rating agencies. It actively promotes the publication of information on financial risks related to climate and climate change so that investors, lenders, insurers and shareholders can make decisions with as much data as possible at their disposal, and acts to help companies assess the risks arising from their activities and to raise public awareness of these issues.

V. Finance for Biodiversity Pledge

We signed the Finance for Biodiversity Pledge in October 2022. This charter commits us to collaborate and share knowledge and practices related to biodiversity, to engage with companies so that they reduce their impact on biodiversity, to measure the impact in our investment management, to have biodiversity objectives and to publish biodiversity-related information in our reporting.

This charter commits us to:

- Collaborate and share our knowledge
- Engage in dialogue with companies
- Measure impact
- Set objectives
- Publish our reporting

Exclusion Policy

Normative exclusions

Controversial weapons

Lazard Frères Gestion excludes investments in companies involved in the development and manufacture of biological weapons, in accordance with the 1972 Biological and Toxin Weapons Convention (BTWC), as well as the production of chemical weapons, in application of the 1993 Chemical Weapons Convention (CWC).

Our exclusion policy covers securities involved in the production or distribution of weapons prohibited by these Conventions. It also applies to issuers producing and/or distributing components essential to their manufacture.

Its scope therefore extends to cluster munitions, anti-personnel mines, and biological and chemical weapons.

Finally, since 2023, Lazard Frères Gestion excludes any company domiciled in a country that is not a signatory to the Non-Proliferation Treaty (1968) and is involved in the production of nuclear weapons, using data from our partner MSCI.

Violation of the UN Global Compact

As part of the ongoing controversy management process, the ESG team and the analyst-portfolio managers pay particular attention to companies that breach the Principles of the United Nations Global Compact.

Each company is analysed and either placed on the exclusion list or made subject to an escalation procedure in the event of a violation of the Principles of the United Nations Global Compact.

ESCALATION PROCEDURE

An escalation procedure is put in place when the severity or the reality of a violation of one of the Principles of the United Nations Global Compact is contested by Lazard Frères Gestion.

- When the severity of the controversy is questioned by Lazard Frères Gestion, the company is placed on the in-depth engagement list. An engagement process is put in place in order to guarantee the company a right of reply.
- In the absence of a satisfactory response and after a period of 6 months, if the breach of one of the principles of the United Nations Global Compact proves to be severe, proven and repeated, the company will be placed on the exclusion list.
- Where the breach of one of the 10 United Nations principles is contested by Lazard Frères Gestion, companies are placed on the watch list and are subject to an in-depth assessment and analysis carried out by the ESG team.

This watch list is updated each quarter according to new controversies.

A committee bringing together analyst-portfolio managers and ESG specialists submits these three lists (engagement, watch, exclusion) to the validation of Lazard Frères Gestion's executive committee each quarter. After the controversy has been closed and a period of one year has elapsed, the company will be removed from the lists.

Sector exclusions

Tobacco

Lazard Frères Gestion does not invest in companies for which the production of tobacco or tobacco-related products is a core activity.

Our policy does not concern companies indirectly involved in the tobacco industry through secondary products and/or services (e.g. packaging suppliers, airlines, airport retail services), their activity not being exclusively oriented towards tobacco.

Coal

Lazard Frères Gestion excludes any investment in companies where:

- More than 10% of revenue comes from thermal coal-related activities
- More than 10% of the energy mix (per MWh generated) relies on coal
- Annual thermal coal production exceeds 10 MT per year
- Installed coal-fired capacity exceeds 5 GW
- Projects involve the development of thermal coal mines or coal-fired thermal power plants.

PROJECTS AND EXPLORATION	ACTIVITIES	
	Extraction and production	**Electricity**
Exclusion of companies with projects to develop thermal coal mines or coal-fired thermal power plants	Annual production greater than *10 MT*	Installed coal-fired capacity greater than *5 GW*
	Share of revenue from coal-related activities greater than *10%*	Share of the energy mix linked to coal greater than *10%*

Unconventional fossil fuels

Lazard Frères Gestion excludes all upstream (exploration and production) companies for which more than 5% of production comes from the following sources:

- Coal seam gas or coal bed methane
- Oil from oil sands and oil shale
- Extra-heavy oil
- Hydraulic fracturing (fracking)*

Companies for which more than 5% of production comes from hydraulic fracturing are subject to an analysis of their climate transition plans, according to Lazard Frères Gestion's internal analysis, which may lead to inclusion in the investable universe if the plan is considered acceptable.

* Tight oil and gas, as well as shale oil and gas, can only be extracted by hydraulic fracturing.

Palm oil

Lazard Frères Gestion excludes companies with at least 5% of revenue from the production and/or distribution of palm oil and for which less than 60% of this production is certified.

Lazard Frères Gestion relies on RSPO (Roundtable on Sustainable Palm Oil) certification, a voluntary and independent certification system bringing together stakeholders from across the palm oil value chain. This certification guarantees compliance with environmental, social and economic criteria in the production of palm oil.

To find out more, see our Biodiversity policy.


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